PETROLEUM STORAGE TANK
INSURANCE FUND

(A Major Fund of the State of Missouri)

INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2013

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GRAVES and ASSOCIATES, CPAs, LLC

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Petroleum Storage Tank Insurance Fund
Jefferson City, Missouri:

We have audited the accompanying financial statements of the Petroleum Storage Tank Insurance Fund as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Petroleum Storage Tank Insurance Fund, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of the Petroleum Storage Tank Insurance Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Petroleum Storage Tank Insurance Fund's internal control over financial reporting and compliance.

Graves and Associates,
CPAS, LLC

GRAVES AND ASSOCIATES, CPAs, LLC
Jefferson City, Missouri

October 15, 2013

PETROLEUM STORAGE TANK INSURANCE FUND
(A Major Fund of the State of Missouri)

Statement of Net Position (Accumulated Deficit)
June 30, 2013

Assets		
Current Assets:		
Pooled Cash and Cash Equivalents	$	67,007,189
Accounts Receivable, Net of allowance of $56,941		1,524,265
Interest Receivable		111,861
Total Current Assets		68,643,315
Non-Current Assets:		
Capital Assets, Net of Accumulated Depreciation of $170,672		20,541
Total Non-Current Assets		20,541
Total Assets	$	68,663,856
Liabilities		
Current Liabilities:		
Accounts Payable	$	8,209
Deferred Revenue		550,474
Deferred Claims Payment - COP		6,023
Claims Liability - Current		12,500,000
Loss Contingency		2,500,000
Compensated Absences		87,599
Total Current Liabilities		15,652,305
Non-Current Liabilities:		
Claims Liability - Non-Current		95,393,675
Total Non-Current Liabilities		95,393,675
Total Liabilities		111,045,980
Net Position (Accumulated Deficit)		
Invested in Capital Assets, Net of Related Debt		20,541
Unrestricted Net Position (Accumulated Deficit)		(42,402,665)
Total Net Position (Accumulated Deficit)	$	(42,382,124)

See accompanying Notes to the Financial Statements.

PETROLEUM STORAGE TANK INSURANCE FUND
(A Major Fund of the State of Missouri)

Statement of Revenues, Expenses, and Changes in Fund Net Position (Accumulated Deficit)
For the Year Ended June 30, 2013

Operating Revenues:		
Transport Load, Initial Tank, and Participation Fees	$	12,235,875
Cost Reimbursements and Miscellaneous		2,235
Total Operating Revenues		12,238,110
Operating Expenses:		
Personal Services and Fringe Benefits		1,481,109
Operations		3,547,003
Specific Programs - Claim Expenses		13,038,863
Depreciation		6,814
Total Operating Expenses		18,073,790
Operating Income (Loss)		(5,835,680)
Non-Operating Revenues (Expenses)		
Investment Earnings		407,687
Total Non-Operating Revenues (Expenses)		407,687
Net Income (Loss)		(5,427,993)
Total Net Position (Accumulated Deficit), Beginning of Year		(36,954,131)
Total Net Position (Accumulated Deficit), End of Year	$	(42,382,124)

See accompanying Notes to the Financial Statements.

PETROLEUM STORAGE TANK INSURANCE FUND
(A Major Fund of the State of Missouri)

Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows Provided (Used) by Operating Activities:		
Cash Received from Customers and Users	$	12,500,904
Cash Payments to Employees		(1,429,554)
Cash Payments to Vendors for Goods and Services		(3,544,849)
Cash Payments for Claims		(10,833,833)
Net Cash Provided (Used) by Operating Activities		(3,307,332)
Cash Flows Provided (Used) by Investing Activities:		
Interest on Cash and Investments		460,506
Net Cash Provided (Used) by Investing Activities		460,506
Net Increase (Decrease) in Cash and Cash Equivalents		(2,846,826)
Cash and Cash Equivalents - Beginning of Year		69,854,015
Cash and Cash Equivalents - End of Year	$	67,007,189

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss)	$	(5,835,680)
Adjustments to Reconcile Changes in Net Position to Net Cash Provided (Used) by Operating Activities:		
Depreciation		6,814
Decrease/(Increase) in Accounts Receivable		262,906
Increase/(Decrease) in Accounts Payable		2,154
Increase/(Decrease) in Deferred Revenue		(112)
Increase/(Decrease) in Compensated Absences		51,555
Increase/(Decrease) in Claims Payable		2,205,030
Total Adjustments		2,528,347
Net Cash Provided (Used) by Operating Activities	$	(3,307,332)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the PSTIF considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund type are pooled with the State of Missouri.

See accompanying Notes to the Financial Statements.

NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Petroleum Storage Tank Insurance Fund (the "PSTIF"), created by Section 319.129 RSMo in 1989, is an independent, self-supporting, governmental entity governed by an eleven member board of trustees. State law indicates that the PSTIF will expire on December 31, 2020, with the exception of completing payment of claims made prior to that date. The purpose of the PSTIF is to provide insurance coverage for petroleum storage tank owners for the expenses of cleaning up a leak, as well as third-party property damage and bodily injury resulting from leaks. The law requires the owner/operator to comply with certain Department of Natural Resources (DNR) and Department of Agriculture operating requirements in order to be insured. In addition, the PSTIF reimburses for the expenses to clean up sites where petroleum storage tanks have been closed if they meet certain criteria.

Financial Reporting Entity

The PSTIF is a major fund of the State of Missouri (the "State"), as defined by Governmental Accounting Standards Board (GASB) Statement No. 34.

These financial statements include those transactions under the operational control of the PSTIF's Board of Trustees, as well as transactions under the control of other state agencies that receive appropriations from the PSTIF.

Basis of Presentation

The PSTIF accounts for its activities as an enterprise fund, a type of proprietary fund. Proprietary funds are used to account for ongoing activities that are similar to activities found in the private sector. The measurement focus is upon determination of net income.

Specifically, enterprise funds account for operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service. Enterprise funds also account for activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Method of Accounting

The accrual basis of accounting is utilized for the PSTIF. With this measurement focus, revenues are recognized when earned and expenses are recorded when incurred. The PSTIF recognizes revenue on transport load fees based on when the fee was incurred by the transporter. Participation fees are earned based on the period in which the owner/operator is being insured. The PSTIF recognizes claims reserve liabilities and the related expenses when the PSTIF becomes aware of contamination at a storage tank site and estimates the costs to clean up the contamination.

NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Deposits and Investments

Cash and cash equivalents include cash and short-term investments with a maturity of three months or less from the date of purchase, which are invested by the State Treasurer as part of the State's cash pool. All deposit and investment risk is controlled by the State Treasurer. Information concerning the State's deposit and investment risks may be found in the State's Comprehensive Annual Financial Report.

Receivables and Uncollectible Accounts

Accounts receivable are comprised of transport load fees due to the State. The PSTIF has provided for an allowance for doubtful accounts related to state billings totaling $56,941 where the State has filed proceedings on bankruptcy against some companies, and for billings that are more than twelve months old.

Capital Assets

All capital assets for the PSTIF (held both by the PSTIF and DNR) with useful lives of more than one year and valued at greater than $1,000 are stated at historical cost. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method with estimated useful lives from 3 to 5 years. The DNR calculates the depreciation on its applicable assets and provides the amounts to the PSTIF. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fees

The PSTIF receives the following fee revenues:

Transport load fee – Fee upon each load of petroleum brought into the State. This fee is currently $20 per 8,000 gallons of petroleum.

Tank fee – One-time fee of $100 per tank paid by the tank owners and operators for participation in the PSTIF.

Participation fee – A fee paid by the tank owners and operators who apply for and receive insurance coverage from the PSTIF. The fee is assessed on each tank insured annually. This fee currently ranges from $100 to $200 per tank insured.

Classification of Operating and Non-Operating Revenue

The PSTIF has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as charges for program participation. Also included in operating revenues are transport load fees, which the State has identified as the primary source of program funding.

Non-operating revenues – Non-operating revenues include interest on deposits and investments.

Restricted Assets

Restricted assets include assets that are legally restricted as to their use. Restricted assets are used first when both restricted and unrestricted assets could be used for the same purpose. The PSTIF currently has no restricted assets.

NOTE 1 – FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Employee Fringe Benefits

State employees, including those employed by or paid from the PSTIF, are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the State's healthcare, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance, cafeteria plan, and deferred compensation plan involve only employee contributions or payroll deductions.

The State's required contributions for employee fringe benefits are paid from the same funds as the related payroll. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits), social security and Medicare taxes and healthcare premiums. For information on the State's fringe benefits, see the States Comprehensive Annual Financial Report.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance

PSTIF had a deficit fund balance at June 30, 2013, of ($42,382,124). Under Section 319.132, RSMo, the Board of Trustees has authority to increase the transport load fee to a maximum of $60 per 8,000 gallons. In addition, under Section 319.133, RSMo, the Board can increase annual participation fees to a maximum of $500 per tank per year.

These facts, along with the knowledge that PSTIF's claim reserves are set using very conservative assumptions, assure that adequate revenues will be available to meet its liabilities.

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION:

The activity of the capital assets and accumulated depreciation for the year ended was as follows:

Balance-Beginning	$ 197,790
Additions	2,122
Disposals	(8,699)
Balance-Ending	191,213
Accumulated Depreciation	
Balance-Beginning	172,557
Additions	6,814
Disposals	(8,699)
Balance-Ending	170,672
Capital Assets, Net	$ 20,541

Depreciation expense was $6,814 for the year ended.

NOTE 4 – COMPENSATED ABSENCES:

State employees, including those employed by or paid by the PSTIF, are granted vacation, sick, and compensatory leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and compensatory hours. Employees are not paid for accumulated sick leave upon termination. The amounts of accrued vacation and compensatory hours are included in accrued liabilities as a current liability in the accompanying Statement of Net Position. The costs of sick leave are recorded when paid and are not accrued. The total compensated absences as of the year ended were $87,599.

NOTE 5 – CLAIMS LIABILITY:

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. The PSTIF has claims liability for the cost of contamination cleanup for policyholders and other eligible site owners who have submitted notice of a contamination. Because actual claims liabilities depend on such complex factors the process used in computing claims liability does not necessarily result in that exact amount. These liabilities are reported as part of the total claims liability at year end. Claims liabilities are reevaluated continually on each case to take into consideration recently settled claims, additional cost considerations, and other economic and social factors.

NOTE 5 – CLAIMS LIABILITY: (Continued)

The PSTIF's reconciliation of its beginning and ending claims liabilities is summarized as follows:

Liability as of beginning of year	$ 105,688,645
Claims payments	(10,833,833)
Claims incurred and changes in estimates	13,038,863
Liability as of end of year	$ 107,893,675

NOTE 6 – CONTINGENCIES:

Litigation - Various claims and lawsuits are possible against the PSTIF.

The PSTIF received a court judgment against it on September 16, 2011, in one case for punitive damages totaling $2,500,000. An appeal was filed with the Western District appellate court on September 23, 2011, to reduce or eliminate punitive and actual damages awarded. The PSTIF has included a contingent liability in its financial statements related to this case for the year ended. A decision is expected any day.

Fraudulent Charges – PSTIF discovered that an environmental consulting engineer who was doing work for several claimants had submitted falsified invoices; PSTIF notified state and federal authorities, who conducted a joint investigation. A plea agreement is anticipated at a court hearing scheduled for November 12, 2013, and the PSTIF expects full restitution will be made in fiscal year 2014.

NOTE 7 – CONCENTRATIONS:

Revenues:
The PSTIF receives approximately 100% of its revenue from a single industry.

NOTE 8 – COMMITMENTS:

The PSTIF contracts with a third party administrator to provide claims management, administrative services, record keeping, data management, and special projects.

NOTE 9 – RELATED PARTY TRANSACTIONS:

Some members of the Board also participate in fund operations in the normal course of business by way of fees paid from their businesses.

As of the year ended, three related parties paid insurance participation fees in the amount of approximately $124,177, to PSTIF. There were no outstanding receivables from these parties as of the year ended.

During the year, three related parties received payments in the amount of approximately $1,227,474 from PSTIF. Claim reserves in the amount of approximately $3,920,129, for these related parties' claims were estimated by PSTIF as of the year ended and were included in short-term and long-term liabilities. Specific identification of the short-term and the long-term portion of these claims cannot be readily determined. Therefore, they have not been separately identified on the Statement of Net Position (Accumulated Deficit).

NOTE 10 - EVALUATION OF SUBSEQUENT EVENTS:

The PSTIF has evaluated subsequent events through October 15, 2013, the date which the financial statements were available to be issued.